VSCPA
Virginia Society of CPAs

October 30, 2023

Technical Director
File Reference No. 2023-ED500
FASB
801 Main Avenue
PO Box 5116
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Sent via email to director@fasb.org

RE: Disaggregation of Income Statement Expenses

Dear Hillary Salo, Technical Director:

The Virginia Society of CPAs (VSCPA) Accounting & Auditing Advisory Committee has reviewed the Proposed Accounting Standards Update (Update) — *Disaggregation of Income Statement Expenses*, issued by the FASB. The VSCPA is the leading professional association in Virginia dedicated to enhancing the success of all CPAs and their profession by communicating information and vision, promoting professionalism, and advocating members' interests. The VSCPA membership consists of nearly 13,000 individual members who actively work in public accounting, private industry, government, and education.

Question 1: The amendments in this proposed Update would require that a public business entity disclose disaggregated *relevant expense captions* in the notes to financial statements. For preparers and practitioners, are the proposed amendments for identifying relevant expense captions operable? Please explain why or why not. If not, what changes would you make?

We believe the proposed amendments for identifying relevant expense captions are operable. The list of additional expenses is enough to capture additional relevant information requested by investors without being so expansive that the costs on preparers would be prohibitive. The additional definitions will also aid to financial statement users' understanding on the type of expenses included in each category.

Question 2: Should the proposed amendments apply to all public business entities? Please explain why or why not.

We believe the proposed amendments should be apply to all public business entities, except not-for-profits, as the goal of codification is to have conformity amongst entities. Not-for-profits should remain excluded as ASC 958 includes enhanced disclosures related to functional expenses.

Question 3: The proposed amendments would require that an entity disclose the amounts of (a) inventory and manufacturing expense, (b) employee compensation, (c) depreciation, (d) intangible asset amortization, and (e) DD&A that are included in each relevant expense caption. For investors, would this proposed disclosure provide decision-useful information? If so, how would that information be used? If not, what changes would you make? Would any of the proposed categories not provide decision-useful information? For example, are there categories that would be more decision useful than the ones being proposed?

As preparers, we would not speculate on behalf of investors and would suggest that FASB rely on investor responses here.

Question 4: For preparers, how does requiring disclosure of certain categories of expenses included in relevant expense captions compare with the operability and cost of requiring full disaggregation of income statement expenses into natural categories (including the disclosure of additional categories that would

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not be required by the proposed amendments)? Are there other broadly applicable expense categories or disaggregation approaches that would provide investors with more decision-useful information, be less costly to provide, or both? Please explain why or why not.

Preparers and business entities would have to modify their systems in order to properly account for certain expenses. Limiting the impact to only a select set of expenses will reduce the impacted costs to business. At this time, we believe the expenses categories should be sufficient in providing investors with the decision-useful information they seek and any additional expenses would create an undue cost burden to business entities.

Question 5: For preparers and practitioners, is the proposed definition of *inventory expense* operable? Please explain why or why not. If not, what changes would you make?

The proposed definition of inventory expense is operable. The definition covers the nature of inventory for preparers, practitioners, and users of financial statements well.

Question 6: The proposed amendments would leverage the existing definition of *employee* in Topic 718, Compensation—Stock Compensation, and would add a definition of *employee compensation*. For preparers and practitioners, are the proposed definitions of *employee* and *employee compensation* operable, including for entities with international operations, and would the proposed amendments affect entities' current application of the definition of *employee* in Topic 718? Please explain. What changes, if any, would you make? For preparers, would the proposed practical expedient that would allow certain entities to disclose salaries and benefits in accordance with SEC Regulation S-X Rule 9-04 be less costly to apply than applying the proposed definition of *employee compensation*? For investors, would permitting the application of that proposed practical expedient affect the decision usefulness of the proposed disclosures? For all stakeholders, should the definition of *employee compensation* include additional costs or exclude any of the costs proposed? Please explain why or why not.

We believe the proposed definitions of employee and employee compensation are operable. The proposed definition seems to simply clarify the original intent of the definition by expanding the language. The definition is sufficient for stakeholders as it covers the major costs associated with employee compensation. Any additional information that would be beneficial for stakeholders would be broken out further in other required disclosures.

Question 7: For preparers and practitioners, would linking depreciation and intangible asset amortization to existing disclosure requirements in Subtopic 360- 10, Property, Plant, and Equipment—Overall, and Subtopic 350-30, Intangibles— Goodwill and Other—General Intangibles Other Than Goodwill, be operable? Please explain why or why not.

We believe that Subtopic 360 and Subtopic 350 are closely related enough to be operable.

Question 8: The proposed amendments would require further disaggregation of inventory and manufacturing expense into the following categories of costs incurred: (a) purchases of inventory, (b) employee compensation, (c) depreciation, (d) intangible asset amortization, and (e) DD&A. Those costs incurred categories would include costs that flow into the balance sheet as inventory and also would include manufacturing costs that are expensed directly. The costs incurred categories would not represent costs flowing from inventory on the balance sheet to the income statement when that inventory is sold or impaired. Residual costs incurred would be included in an "other" category. For investors, would this proposed disclosure provide decision-useful information? If so, how would that information be used? If not, what changes would you make? Would any of the proposed costs incurred categories not provide decision-useful information? For example, are there categories that would be more decision useful than the ones being proposed? Should the proposed requirement to further disaggregate costs incurred that flow into the balance sheet as inventory be expanded to include assets other than inventory? If so, which assets?

As preparers, we would not speculate on behalf of investors and would suggest that FASB rely on investor responses here.

Question 9: The proposed amendments would require (a) that the costs incurred that were capitalized to inventory during the current period be combined with other manufacturing expenses and (b) that this total of manufacturing-related expenses be disaggregated and disclosed separately from nonmanufacturing expenses. For preparers, would this proposed requirement be more or less costly to implement than if all such costs (manufacturing and nonmanufacturing) were permitted to be combined? For preparers and practitioners, is this proposed requirement operable? Please explain why or why not.

The proposed requirement would be more costly to implement than the costs of implementing manufacturing and nonmanufacturing combined. Fewer allocation would be required which would save preparers and practitioners time and the business entity would benefit from reduced costs. A combined approach would be operable for preparers and practitioners.

Question 10: For preparers and practitioners, is the proposed requirement to classify certain expenses as part of manufacturing activities and disclose how an entity defines other manufacturing expenses (other manufacturing expenses together with inventory expense constitute inventory and manufacturing expenses) operable? Please explain why or why not. If not, what changes would you make?

We believe that an entity providing clarity of what other manufacturing expenses are is not only operable, but also an improvement for all. Stakeholders and investors would benefit from a better understanding of what is included in other manufacturing expenses and be more readily comparable. There will need to be balance between what is good for investors and provides transparency with the cost of said transparency. For larger business entities with shares that trade, this would operable. For smaller business entities, the benefit is outweighed by the costs of implementation.

Question 11: For preparers and practitioners, are there any potential practical expedients that would simplify or reduce the costs associated with disaggregating inventory and manufacturing expense but would not significantly diminish the decision usefulness of the information provided to investors? For any potential practical expedients suggested, please explain your reasoning.

We cannot currently offer up any potential practical expedients at this time.

Question 12: The proposed amendments would require that an entity include certain existing disclosures of expenses in the same tabular format disclosure as the disclosures that would be required by the proposed amendments. For investors, would including those expenses in the same tabular format disclosure provide decision-useful information? Would this improve your ability to locate relevant expense information in the notes to financial statements? Please explain why or why not. For preparers and practitioners, is this proposed requirement operable? Please explain why or why not. For all stakeholders, are there other existing disclosures that are not reflected in the proposed amendments and should be included in the lists in paragraph 220-40-50-12, paragraph 220-40-50-13, or both? Please explain why or why not.

The proposed requirement to include expenses in the same tabular format disclosure is operable. The tabular format provides a consistent approach to disclosing the proposed amendments that is already being utilized by other disclosures.

As preparers, we would not speculate on behalf of investors and would suggest that FASB rely on investor responses here.

Question 13: In addition to the disclosure requirements being proposed, should other expenses that are currently disclosed in the financial statements also be required to be integrated into the tabular format disclosures (for example, other expenses that an entity voluntarily discloses in total in the notes to financial statements)? Please explain why or why not.

We believe at this time other expenses (not covered by the proposed amendment) that are currently disclosed in the financial statements should not be required to be integrated into the tabular format. Each business entity along with their preparer should be given the option to approach the disclosure in a manner that is best for their business. Adding the requirement would incur additional costs without providing sufficient benefits.

Question 14: The proposed amendments would require that an entity provide a qualitative description of any other items remaining in relevant expense captions and any costs remaining in inventory and manufacturing expense after the specific disaggregation requirements are applied. For investors, would this proposed requirement provide decision-useful information? If so, how would that information be used? If not, what changes would you make? For preparers and practitioners, is this proposed requirement operable? Please explain why or why not.

We believe qualitative descriptions of other items are not only operable, but beneficial for all parties. It is essential for users of financial statements to understand what is included in other items.

As preparers, we would not speculate on behalf of investors and would suggest that FASB rely on investor responses here.

Question 15: The proposed amendments would require that an entity disclose selling expenses and how it defines selling expenses. Should a definition of *selling expenses* be developed, or should an entity be required to determine what constitutes a selling expense? For investors, would the proposed requirement provide decision-useful information? If so, how would that information be used? If not, what changes would you make? For preparers and practitioners, is the proposed requirement operable? Please explain why or why not.

We believe at this time a business entity should be able make its own determination of what constitutes a selling expense as long as they properly define what a selling expense is to them. The proposed requirement is operable for preparers and practitioners as the resources required for this proposal are limited.

As preparers, we would not speculate on behalf of investors and would suggest that FASB rely on investor responses here.

Question 16: The proposed amendments would require the disclosures on both an annual basis and an interim basis. Do you agree with those proposed amendments? Please explain why or why not.

We believe once business entities adapt to the propose amendments that requiring the disclosures on both and annual basis and interim basis would not pose an issue to most business entities.

Question 17: The proposed amendments would be applied on a prospective basis with an option for an entity to apply the guidance retrospectively. Is that proposed transition method operable? If not, why not and what transition method would be more appropriate and why? Would the information disclosed under the proposed transition method be decision useful? Please explain why or why not.

The proposed amendments being applied on a prospective basis with an option for an entity to apply the guidance retrospectively is operable.

Question 18: For preparers, would you expect to apply the proposed amendments retrospectively, even if not required, to assist investors in comparing performance to previous periods? Please explain why or why not.

We believe that business entities will vary on retrospective application based on their accounting systems and internal controls. The costs associated with retrospective application would be prohibitive for voluntary application.

Question 19: Regarding the effective date, how much time would be needed to implement the proposed amendments? Should early adoption be permitted? Please explain why or why not.

We believe the effective date should be far enough out to give preparers and business entities enough time to properly implement. Early implementation should be permitted as the proposed changes will enhance their financial statements. We don't have a recommended effective date at this time.

The VSCPA appreciates the opportunity to respond to this update. Please direct any questions or concerns to VSCPA Vice President, Advocacy Emily Walker, CAE, at ewalker@vscpa.com or (804) 612-9428.

Sincerely,

Zach Borgerding, CPA
Chair 2023-2024
VSCPA Accounting & Auditing Advisory Committee

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